UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/ICEF/1993/AB/L.3
25 February 1993

ORIGINAL: ENGLISH

UNITED NATIONS CHILDREN'S FUND
Committee on Administration and Finance
1993 session

FOR INFORMATION

REPORT TO THE UNITED NATIONS BOARD OF AUDITORS AND THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS REGARDING GENERAL ASSEMBLY RESOLUTION 47/211

SUMMARY

In compliance with General Assembly resolution 47/211 of 21 December 1992, the present document includes a report on the steps taken by UNICEF on the five recommendations of the Board of Auditors which have been noted by the General Assembly. It also presents an action-oriented report on the steps taken or to be taken in response to the recommendations of the Board of Auditors on the UNICEF accounts for the biennium 1990-1991. Further, it describes the measures taken by UNICEF to strengthen the independence and effectiveness of the internal audit function.

CONTENTS

	Paragraphs	Page
INTRODUCTION	1 - 5	2
I. REPORT ON STEPS TAKEN ON THE FIVE RECOMMENDATIONS OF THE BOARD OF AUDITORS	6 - 23	2
II. PROGRESS REPORT REGARDING SPECIFIC MEASURES TAKEN TO IMPLEMENT PREVIOUS RECOMMENDATIONS OF THE BOARD OF AUDITORS	24 - 51	5
III. REPORT ON THE STEPS TAKEN TO STRENGTHEN THE INTERNAL AUDIT FUNCTIONS	52 - 54	9

93-11097 (E) 240393 260393

/...

INTRODUCTION

1. In resolution 47/211, the General Assembly requested the Secretary-General and executive heads of United Nations organizations and programmes to submit to the General Assembly at its forty-eighth session, a report on the steps taken (a) to strengthen budgetary control; (b) to make purchasing policies more cost-effective and transparent by reducing exceptions to competitive bidding and recording reasons for exceptions in writing; (c) to give priority attention to compliance with the recommendations of the Board of Auditors on the hiring, granting of remuneration and performance evaluation of experts, consultants and personnel engaged on a short-term basis; (d) to install a more effective system of managing the granting of allowances and benefits to staff members; and (e) to tighten control over non-expendable property.

2. The resolution also called on the Secretary-General and executive heads of United Nations organizations and programmes to submit an action-oriented report outlining steps to be taken in response to the recommendations of the Board of Auditors, including timetables for their implementation.

3. The resolution further requested the Secretary-General and executive heads of United Nations organizations and programmes to report on the urgent steps taken to strengthen the independence and effectiveness of the internal audit function and ensure an adequate response to internal audit findings.

4. In compliance with resolution 47/211, the present report will review each request in the light of UNICEF experience.

5. The present document is submitted to the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions (ACABQ) for their evaluation.

I. REPORT ON STEPS TAKEN ON THE FIVE RECOMMENDATIONS OF THE BOARD OF AUDITORS

6. The five recommendations mentioned in paragraph 1 above are based on the major findings of the Board of Auditors in the audit of all United Nations organizations and programmes. The audit of the UNICEF accounts for the biennium 1990-1991 included only two of the five recommendations.

7. This section describes the steps taken on the recommendations that were specifically included in the Board of Auditors' report on the UNICEF accounts. It also describes the organization's present policies and procedures for the three areas not included in the audit report on the UNICEF accounts.

Recommendation No. 1

8. To strengthen budgetary control to avoid overexpenditures of approved budgets or allotments.

Measures taken by UNICEF

9. The administration continues to give priority attention to the issue of over expenditure in its programme and administrative budgets. To this end, the following steps have been taken to address the problem:

(a) The secretariat regularly reviews and monitors the budgetary allotments of all offices, the results of which are provided to the field offices on a regular basis;

(b) In addition, a special report on overexpenditures in the programme budgets is now being generated and sent to the field offices on a monthly basis to facilitate (i) the review of transactions which caused the overexpenditures; (ii) the reconciliation of field office records with the headquarters' report; and (iii) the immediate preparation of the necessary adjustments to the accounts;

(c) Field offices are also regularly reminded, during regional workshops, training sessions and by means of written communication, of the critical importance of monitoring and reconciling their budgetary accounts.

10. An automatic "lock-up" facility was included in the version 1.5 of the Global Field Support System (GFSS) released to field offices in December 1992. This latest version of GFSS provides the facility of checking funds availability at various levels; namely, at the budget allotment levels, at the obligating level and at the payment level. The system will inhibit any financial activity that would be in excess of the authorized funds at these levels. In 1993, the administration will evaluate the effectiveness of the controls that have been put in place.

11. Further, in line with the review of financial accountability in the organization which will be completed in 1993, clarifications will be made on the delegation of financial authority and the assumption of the corresponding accountability for such delegated authority.

Recommendation No. 2

12. To make purchasing policy on the acquisition of goods and services more cost-effective and transparent, inter alia, by reducing the number of exceptions to competitive bidding and ensuring that the reasons for such exceptions are recorded in writing.

Measures taken by UNICEF

13. The report on the audit of the 1990-1991 accounts did not include any findings in this area.

14. The administration has prescribed policies and procedures on bidding and the circumstances under which competitive tenders may be waived. These are listed below:

(a) The prices or rates are fixed pursuant to national legislation or by regulatory bodies;

(b) Standardization of supplies, equipment or spare parts is, on the advice of the Contract Review Committee (CRC), considered appropriate;

(c) Emergency situations or exigencies of the service do not permit the delay attendant upon the issuance of invitations to bid or requests for proposals, or the reissue thereof in cases where such solicitation has failed to achieve satisfactory results;

(d) The proposed contract relates to purchasing from a sole source of supply or to the purchasing of perishable supplies;

(e) Invitations for bids or requests for proposals will not give satisfactory results or are not, in the particular case, deemed in the interest of UNICEF.

15. The policies further require that the advice of CRC be obtained for procurement transactions involving amounts beyond designated ceilings. The submissions to CRC specifically provide that if there was no competitive bidding, the reason(s) for this should be stated.

Recommendation No. 3

16. To give priority attention to compliance with the recommendation of the Board of Auditors on the hiring, granting of remuneration and performance evaluation of experts, consultants and personnel engaged on a short-term basis.

Measures taken by UNICEF

17. The report on the audit of the 1990-1991 accounts did not include any findings in this area.

18. The administration wishes to point out that the policies and procedures on the use of special service agreements for consultants were quite recently updated under an administrative instruction dated 23 December 1991. This document spells out the policies and procedures on, among others, the hiring, determination of fees and preparation of performance evaluation reports upon completion of assignments. The administrative instruction clearly places the responsibility on the head of each office to ensure that final payments against contracts are not made until an evaluation, stating that the entire assignment has been satisfactorily completed, is submitted.

Recommendation No. 4

19. To install a more effective system of managing and controlling the granting of allowances and benefits to staff members.

Measures taken by UNICEF

20. The Board of Auditors' report of the 1990-1991 accounts did not include any findings in this area.

21. The organization's prescribed procedures require the review of a staff member's circumstances and status in relation to the criteria for the granting

of benefits and allowances prior to the issuance of the personnel document (Form P5) authorizing the benefit or allowance.

Recommendation No. 5

22. To tighten control over the inventory of non-expendable property in all locations, including peace-keeping operations.

Measures taken by UNICEF

23. In 1992, the administration issued instructions prescribing procedures for the accounting, the maintenance of records and the conduct of annual inventory for non-expendable property. Compliance with these instructions will be monitored in 1993 and appropriate action taken as necessary.

II. PROGRESS REPORT REGARDING SPECIFIC MEASURES TAKEN TO IMPLEMENT PREVIOUS RECOMMENDATIONS OF THE BOARD OF AUDITORS

24. This section restates a number of recommendations of the Board of Auditors deriving from the audits of the UNICEF biennial accounts for the period 1990-1991 1/ and, following each recommendation, describes the specific measures taken by UNICEF to date to implement those recommendations. The relevant recommendations of ACABQ have also been taken into consideration in adopting these measures. The recommendations included in the report on the audit of the 1990-1991 accounts that relate to the five items mentioned in paragraph 1 above are included in chapter I above and not in this chapter.

Recommendation No. 1

25. To make the procurement services self-sustaining, the following measures should be taken:

(a) Staff costs charged to the procurement services account should be reviewed and appropriate reductions made. In the future, the number of posts should be commensurate with the volume of projected procurement services;

(b) Expenditure monitoring should be strengthened to keep operating costs down;

(c) The present rate of handling charges should be reviewed to reflect operating costs.

Measures taken by UNICEF

26. The administration has taken the following steps to ensure that procurement services activities are self-sustaining and to strengthen the monitoring of expenditures:

(a) The number of staff charged to procurement services income included in the administrative budget for the biennium 1994-1995 will be reduced to ensure that staff and associated costs do not exceed the projected income. This budget submission will be subject to the approval of the Executive Board;

(b) In 1993, the monitoring of income and expenditure will be managed entirely by one office. This will provide a better measure of control than the previous practice where the monitoring responsibility was split between two offices;

(c) As a result of the review of the reasonableness of the handling charges, the rates were increased from 4 to 6 per cent for warehouse and vaccine orders and from 6 to 8 per cent for non-warehouse items from 1 July 1992.

27. Additionally, steps have been taken to ensure that in 1993 and onwards, transactions related to procurement services passing through the UNICEF warehouse at Copenhagen are reflected appropriately in the procurement services account.

Recommendation No. 2

28. With regard to cash advances to Governments:

(a) UNICEF should rededicate itself to ensuring full compliance by its field offices with the requirement on the release of new advances (now referred to as "cash assistance") only upon the liquidation of prior ones;

(b) Field offices should provide yearly estimates of cash assistance required for disbursement to Governments in the course of the year;

(c) A separate input code should be introduced to record cash assistance paid out to enable a global figure to be obtained for purposes of control and follow-up.

Measures taken by UNICEF

29. In a memo dated 22 October 1992, the administration reiterated to the field offices the need to comply with the provisions cited by the external auditors. The memo firmly stressed that no new cash assistance should be given unless utilization reports on previous assistance have been submitted by the government ministries.

30. In 1993, the administration will look into the feasibility and practicality of providing more accurate yearly estimates of cash assistance that may be given to government ministries during the year.

31. An accounting instruction redefining the accounting procedures, entries and a separate input code for cash assistance to Governments has been drafted. This will be further reviewed by the secretariat and field offices before its finalization and targeted implementation by 30 June 1993.

Recommendation No. 3

32. The payments of salary allowances and other cash incentives to government employees involved in the implementation of UNICEF-assisted programmes should be discontinued, pending the development of an appropriate policy for consistent application worldwide.

Measures taken by UNICEF

33. The Joint Consultative Group on Policy (JCGP) has created a working group, of which UNICEF is a member. The group will recommend to JCGP a common policy concerning the employment of government staff and direct supplementary payments to government staff. The working group's study will also aim for a common approach to ensure full involvement of the Government in any arrangement that would strengthen government civil service, in some cases through the provision of extrabudgetary resources from donors. Further, the study is expected to lead to the coherent JCGP initiative for broad donor cooperation on this issue at the field level and to a joint donor/Government implementation strategy for the involvement of national personnel and strengthening of the civil service.

34. The administration will follow the policy that will be stipulated by JCGP.

Recommendation No. 4

35. Project planning should adequately articulate implementation requirements to enhance programme delivery. In addition, circumspection is advised in the reallocation of funds from slow-moving projects to fast-moving ones so that the policy does not result in the unconscious neglect of projects located in "difficult" areas that have perennial implementation problems.

Measures taken by UNICEF

36. Whenever movement of funds from slow-moving to fast-moving projects is undertaken, it is with the purpose of maximizing utilization of available resources. Every effort will be made to avoid the neglect of projects located in "difficult" areas that have perennial implementation problems.

37. In 1992, the administration continued to strengthen the monitoring of implementation of country programmes and to provide the field offices with the necessary support to improve programme implementation. The administration, likewise in 1992, continually analysed the causes of low programme implementation to properly address the issue. Efforts in this area will continue to be made throughout 1993.

Recommendation No. 5

38. Decisions taken in emergency situations should be reviewed regularly to establish their continuing validity to ensure that services are provided with due regard to economy.

Measures taken by UNICEF

39. The offices concerned have been advised to exercise caution in making decisions on transactions involving local procurement and contracts. It was emphasized that such decision should take into consideration both the crucial importance of a timely response to emergencies and the need to look into the economy, efficiency and effectiveness of alternative courses of action in order to maximize utilization of resources. In addition, UNICEF has strengthened the coordinating mechanism of emergency operations to more efficiently and promptly provide services to emergency cases.

Recommendation No. 6

40. UNICEF should reassess the adequacy and appropriateness of its present liquidity policy given the recurring significant excesses over the established requirement.

Measures taken by UNICEF

41. Excess liquidity was not the result of the liquidity policy itself, but the result of income exceeding projections and programme expenditure not meeting projections.

42. The administration has been reviewing the organization's liquidity policy and a proposal for its revision has been prepared for discussion. The Financial Advisory Committee will continue its review process in 1993 to determine the most appropriate liquidity policy suited to the organization.

Recommendation No. 7

43. In keeping with current United Nations practice, the value of non-expendable property, of which the ownership remains with UNICEF, should be disclosed as a note to the financial statements.

Measures taken by UNICEF

44. To ensure a common understanding of the new definition of non-expendable property under ST/AI/374, an accounting instruction was issued to all UNICEF offices worldwide for implementation in 1992. In 1993, the administration will monitor and evaluate the extent of compliance with the instructions and will take action as may be required. The value of non-expendable property submitted by the UNICEF offices will be disclosed in the notes to the financial statements for the year ended 31 December 1992.

Recommendation No. 8

45. In the Greeting Card and related operations, the effects of unfavourable exchange rate fluctuations should be minimized by resolving the timing difference in the recognition of sales of balance sheet date (30 April) and the dates actual payments are made by sales partners (after 31 August).

Measures taken by UNICEF

46. The existing agreements with the National Committees, in most cases, provide for a transfer date of 31 August following the end of the campaign year. The administration is in the process of finalizing the new Agreement of Cooperation to be co-signed by UNICEF and the National Committees which proposes an earlier date for the transfer of sales proceeds to UNICEF.

Recommendation No. 9

47. During fund-raising activities, prospective donors should be encouraged to provide sufficient information on their contributions in order to facilitate their accounting, acknowledgement and effective utilization. In this

connection, a standard advice form indicating the relevant information may be completed by donors.

48. Unless otherwise specified by donors, all multi-year contributions received should be recognized as income to the supplementary fund in accordance with the donor's intent as specified in the disbursement schedules.

Measures taken by UNICEF

49. The administration agreed with the recommendations and has implemented the following with regard to the proper application of income recognition policy:

(a) The pledge form for the annual general resources Pledging Conference was reformatted in order to obtain information on a disbursement schedule, the currency of payment and status of parliamentary approval;

(b) Interdivisional discussions had been held regarding the disbursement schedules that will be requested from the donors for all supplementary fund agreements. The donors' responses to these requests will be monitored in 1993;

(c) Income recognition policies are being reviewed and Financial Circular No. 31 is being redrafted to more clearly present the policies and ensure their correct implementation. It is expected that the revised circular will be issued in 1993.

Recommendation No. 10

50. Necessary assistance should be provided to facilitate the completion of the clean-up of the staff personal accounts.

Measures taken by UNICEF

51. The administration has provided additional short-term staff to assist in the ongoing clean-up of the staff personal accounts. Reports on the progress of the activity are periodically provided to management for review and assessment. The 30 October 1992 status report showed a 50 per cent completion rate on the project. It is estimated that the clean-up activity will be finished shortly.

III. REPORT ON THE STEPS TAKEN TO STRENGTHEN THE INTERNAL AUDIT FUNCTION

52. The Board of Auditors recommended that, in addition to the filling of existing vacancies in the Office of Internal Audit, a timely and effective action should be taken to redress the recurring internal control weaknesses reported by the internal auditors.

53. All audit posts have been filled and, as a result, the audit coverage is higher than in previous years. This is expected to improve even further as the three new auditors gain more exposure to UNICEF operations and as one senior auditor, who has been temporarily seconded to another division, assumes the full responsibilities of his post.

54. To clarify the role of the Office of Internal Audit, an executive directive on the subject "Statement of authority and responsibility of the Office of Internal Audit" was issued on 18 August 1992. Additionally, another executive directive on the subject "Follow-up on audit recommendations" was issued on 21 November 1991 to emphasize and strongly reiterate the administration's position regarding action to be taken by the offices concerned on the internal audit recommendations.

Notes

1/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5B (A/47/5/Add.2).